

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

NEA-10 EUR-12 AF-06 /116 W
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P R 232215Z JAN 76

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 8527

INFO AMEMBASSY BRANSILA

AMEMBASSY BUENOS AIRES

AMEMBASSY CARACAS

AMEMBASSY KINGSTON

AMEMBASSY MEXICO

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DEPT PASS OTHER POSTS AS APPROPRIATE

EO 11652: N/A

TAGS: EFIN, ENRG, PE

SUBJECT: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC
DEVELOPMENT

REFS: STATE 6381, LIMA 0524, 75 LIMA 10633, 75 LIMA 4044,
75 LIMA A-60, 74 LIMA A-76, 73 LIMA A-195 (NOTAL)

1. SUMMARY: HIGHER OIL PRICES HAVE HAD SUBSTANTIAL IMPACT ON
PERU'S BALANCE OF PAYMENTS DEFICITS IN THE LAST TWO YEARS,
ALTHOUGH DROP IN COPPER AND OTHER EXPORT PRICES HAS CONTRIB-
UTED MORE SIGNIFICANTLY TO B/P DEFICIT. WITH DRASTIC REDUCTION
IN PERU'S FOREIGN EXCHANGE POSITION DUE TO DEPRESSED EXPORT PRICES
AND GROWING CURRENT ACCOUNT DEFICITS, ACTUAL PERCENTAGE OF

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OIL IMPORTS TO CURRENT ACCOUNT DEFICIT HAS DECREASED
FROM 164 PERCENT IN 1972 TO 11 PERCENT IN 1975. THIS

PHENOMENON HAS ENABLED GOP TO AVOID, IN PART, PUBLIC RECOGNITION OF COST OF OIL IMPORTS ON BALANCE OF PAYMENTS. HOWEVER, OIL PRICES (INCLUDING REFINED PRODUCTS) TO CONSUMERS, AND PARTICULARLY TO KEY TRANSPORT SECTOR, HAS INCREASED SUBSTANTIALLY SINCE OPEC'S 1973 PRICE HIKE TO THE POINT WHERE GOP WAS FIRST FORCED TO REDUCE AND THEN ABOLISH CHERISHED PETROLEUM SUBSIDIES POLICY. THIS WAS DONE PRINCIPALLY TO REDUCE SERIOUS EFFECT OF SUBSIDIES ON CENTRAL GOVERNMENT BUDGET WHICH IS PART CONTRIBUTED TO UNPRECEDENTED DOMESTIC INFLATION RATES. FURTHER OIL PRICE HIKE AND THEIR MULTIPLIER EFFECTS HAVE ALSO BUT GDP GROWTH RATE, ALTHOUGH THE PRINCIPAL REASONS FOR LOWER THAN EXPECTED GROWTH IN THE LAST YEAR WERE LACK OF DOMESTIC PRODUCTIVITY AND INVESTMENT. THESE IN TURN WERE DUE TO GOP'S INCOME REDISTRIBUTION POLICIES AND HEAVY EMPHASIS ON INEFFICIENT PUBLIC SECTOR ENTERPRISES, AS WELL AS A VARIETY OF RESTRICTIVE MEASURES ON THE PRIVATE SECTOR. ALTHOUGH SOME GOP FINANCIAL MANAGERS ARE AWARE OF THE IMPACT OF OIL PRICE INCREASES ON INFLATION, GROWTH, AND THE B/P, PERU'S MILITANT SUPPORT FOR PRODUCER CARTELS AND THE NEW INTERNATIONAL ECONOMIC ORDER MAKE ANY CRITICISM OF OPEC'S POLICIES EXTREMELY UNLIKELY. END SUMMARY.

2. FOLLOWING IS STATISTICAL INFORMATION REQUESTED STATE REFTEL.

OIL IMPORTS (MILLIONS OF U.S. DOLLARS, CIF), VOLUME IN THOUSANDS OF BBLs)

	QUANTITY	VALUE	PERCENTAGE OF IMPORTS BY VALUE	PERCENTAGE OF CURRENT ACCOUNT DEFICIT
1972	14.466	52.072	6	164
1973	15.375	82.369	8	57
1974	11.145	225.819	11	31
1975	17.206	289.067	11	18

(NOTE: SOURCE - PETROPERU. FIGURES FOR OIL IMPORTS EXCEED MORE MODEST ESTIMATES CONTAINED 75 LIMA 10633. LIMITED OFFICIAL USE
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1974 FIGURES ARE PRELIMINARY: 1975 FIGURES ARE ESTIMATES)

3. GROWING CURRENT ACCOUNT DEFICIT BECAUSE OF WORLD INFLATION AND RECESSION WITH CONSEQUENT DROP IN PERU'S EXPORT EARNINGS, PLUS PERU'S LARGE CAPITAL, RAW MATERIALS AND INTERMEDIATE GOODS IMPORTS OF LAST TWO YEARS, HAS ENABLED GOP TO AVOID IDENTIFICATION BETWEEN DOMESTIC ECONOMIC PERFORMANCE AND OPEC PRICING POLICIES AND LATTER'S IMPACT ON WORLD ECONOMY. POLITICALLY, AND MORE IMPORTANTLY FROM ITS POINT OF VIEW, GOP HAS BEEN

FORCED TO DROP ITS POLICY OF HOLDING DOWN PETROLEUM PRICES TO THE PUBLIC THROUGH SUBSIDIES TO THE STATE PETROLEUM AGENCY, PETROPERU. DOMESTIC GASOLINE PRICES WERE INCREASED ON REGULAR GASOLINE BY 66 PERCENT LAST JULY, AND AGAIN BY 53 PERCENT THIS JANUARY. WHILE AUTOMOBILE OWNERS ARE ALREADY COMPLAINING ABOUT PRICE INCREASES, THEY REPRESENT THE MORE AFFLUENT CLASS (WITH THE EXCEPTION OF TAXI DRIVERS) AND ARE RELATIVELY SMALL IN NUMBER. BY CONTRAST, THE MASS OF THE URBAN POPULATION USES PUBLIC TRANSPORT AND INCREASED PRICES IN THIS SECTOR WILL HAVE A DIRECT EFFECT ON THEM, AS WELL AS ON THE COST OF LOCAL GOODS TRANSPORTED BY TRUCK. (IN REGARD TO THE AVERAGE FAMILY, THE GOVERNMENT ESTIMATES IT SPENDS 11.6 PERCENT OF ITS INCOME ON TRANSPORTATION, AND THE RECENT AUSTERITY PACKAGE ACCOUNCED BY THE GOP (LIMA 0524) WILL INCREASE THESE COSTS BY AN ESTIMATED 23 PERCENT IN 1976.)

4. THE GOP HAS BEEN CAREFUL TO AVOID BLAMING THE ARAB OIL-PRODUCING STATES FOR THE ECONOMIC ILLS OF PERU AND, IN FACT, HAS STATED PUBLICLY ON NUMEROUS OCCASIONS THAT THE PRINCIPAL CULPRIT IS "IMPORTED INFLATION," AS WELL AS THE ECONOMIC RECESSION IN THE INDUSTRIALIZED COUNTRIES WHICH HAVE TURNED THE TERMS OF TRADE AGAINST PERU. IRONICALLY, LAST SUMMER FORMER -PRESIDENT VELASCO DID ALLUDE INDIRECTLY TO THE ARABS AS HAVING A SHARE OF RESPONSIBILITY FOR WORLD INFLATION, BUT THE NEW GOVERNMENT OF MORALES BERMUDEZ HAS ASSIDUOUSLY AVOIDED ANY SUCH IMPLICATIONS. THUS, THE AVERAGE PERUVIAN IS PROBABLY NOT AWARE OF THE RELATIONSHIP BETWEEN OPEC'S PRICING POLICIES AND THE DIRECT EFFECT ON HIS DISPOSABLE INCOME.

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IF ANYTHING, HE PROBABLY TENDS TO BLAME THE GOVERNMENT AND/OR THE INDUSTRIAL WEST, RATHER THAN THE ARABS FOR HIS ECONOMIC WOES.

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

NEA-10 EUR-12 AF-06 /116 W
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5. COMPARED WITH THE 6 PERCENT AVERAGE GROWTH RATES IN THE FIRST YEARS OF THE MILITARY'S RULE HERE, THE GDP GROWTH DECLINED LAST YEAR TO 4 PERCENT AND, ALTHOUGH THE GOP EXPECTS A 5.5 PERCENT GROWTH RATE THIS YEAR, WE THINK THIS IS OPTIMISTIC. DECREASE IN GROWTH RATE, MOREOVER, IS MORE DIRECTLY RELATED TO THE GOP'S INCOME REDISTRIBUTION POLICIES, INCLUDING AGRARIAN REFORM, IMPLEMENTATION OF THE INDUSTRIAL COMMUNITY, AND THE INTRODUCTION OF THE NASCENT SOCIAL PROPERTY CONCEPT, AS WELL AS NATIONALIZATION OF SUBSTANTIAL SECTORS OF THE ECONOMY (MINES, HEAVY INDUSTRY, COMMUNICATIONS, MOST BANKS) AND MASSIVE INVESTMENTS IN INEFFICIENT DECENTRALIZED WITH TIGHT IMPORT AND OTHER CONTROLS, AS WELL AS HEAVY DOSES OF ANTI-FREE ENTERPRISE RHETORIC WHICH HAS DRASTICALLY REDUCED PRIVATE SECTOR SAVINGS AND INVESTMENT, WITH A CONSEQUENT EFFECT ON GDP GROWTH.

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6. DURING THE NEXT TWO-THREE YEARS, PERU'S OIL IMPORT BILL (IT IS CURRENTLY ABOUT 40 PERCENT OF ITS PETROLEUM NEEDS) SHOULD BE CUT SIGNIFICANTLY BY THE COMPLETION OF THE NORTHERN ANDEAN PIPELINE AND THE FEEDER SYSTEM TO OCCIDENTAL'S FIELDS. WITH MODERATE SUCCESS, PERU SHOULD BE PRODUCING AN ADDITIONAL 30 MILLION BBL'S. PER YEAR BY 1979, ENOUGH TO MEET ITS INTERNAL NEEDS AND TO REPAY AT LEAST PART OF ITS LOANS CONTRACTED TO BUILD AND DEVELOP

THE PIPELINE AND FIELDS, BUT NOT ENOUGH TO BECOME A NET OIL EXPORTER. THUS, THE EFFECT OF THE INCREASE OF OIL PRICES ON PERU IS OCCURRING NOW, BEFORE FURTHER PRODUCTION COMES ON STREAM AND WHEN THE COUNTRY'S CURRENT ACCOUNT IS IN SUBSTANTIAL DEFICIT. HOWEVER, BECAUSE OF PERU'S CLOSE ASSOCIATION WITH, AND SUPPORT FOR, PRODUCER CARTERLS AND THE NEW INTERNATIONAL ECONOMIC ORDER, THE GOP'S PARAMOUNT INTEREST WILL BE 1) TO MAKE PETROPERU PAY ITS WAY, AND 2) TO PUBLICLY SUPPORT FURTHER CARTEL INITIATIVES, EVEN WHILE IT LOOKS FOR BRIDGE FINANCING FOR PETROLEUM IMPORTS FROM WESTERN BANKS, VENEZUELA (75 LIMA 4044), AND POSSIBLY EVEN THE ARABS THEMSELVES (SEE LIMA 0667) TO SEE IT THROUGH THE NEXT TWO THREE YEARS BEFORE ITS PIPELINE SYSTEM IS IN FULL OPERATION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, ECONOMIC DEVELOPMENT, PRICE TRENDS, BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LIMA00762
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760027-0215
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760128/aaaaaylz.tel
Line Count: 238
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 6381, 76 LIMA 524, 76 LIMA 10633, 76 LIMA 4044
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUL 2004 by KelleyW0>; APPROVED <07 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT
TAGS: EFIN, ENRG, PE, CIEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006